2012
Annual Report

New Brunswick Municipal Finance Corporation

2012 Annual Report

Published by:
Department of Finance
Province of New Brunswick
P.O. Box 6000
Fredericton, New Brunswick
E3B 5H1
Canada

July 2013

Design Management:
Communications New Brunswick

Printing and Binding:
Printing Services, Supply and Services

ISBN 978-1-55396-366-0

ISSN 0847-2440

Printed in New Brunswick

New Nouveau Brunswick

2012
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New Brunswick Municipal Finance Corporation

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New Brunswick Municipal Finance Corporation

Legislation

The New Brunswick Municipal Finance Corporation (the "Corporation") was established by the *New Brunswick Municipal Finance Corporation Act,* Chapter N-6.2 of the Acts of New Brunswick 1982, (the "Act") which came into force on February 1, 1983.

Purpose

The purpose of the Corporation is to provide financing for municipalities and municipal enterprises through a central borrowing authority.

The Act prohibits a municipality or municipal enterprise from issuing and selling securities other than to the New Brunswick Municipal Finance Corporation, the Government of Canada, the Province of New Brunswick, a reserve fund established by the municipality under section 90 or 189 of the *Municipalities Act,* a sinking fund established by the municipality under section 7 of the *Municipal Debenture Act* or a trust fund of which it is a trustee.

An exception is made in the case of securities having a term to maturity of less than one year, which a municipality or municipal enterprise may issue to a chartered bank, trust company or credit union as evidence of a temporary loan.

Administration

The Corporation consists of six directors appointed by the Lieutenant-Governor in Council.

Directors

Jane Garbutt	Deputy Minister Finance Province of New Brunswick
Leonard Lee-White	Assistant Deputy Minister Treasury Division Province of New Brunswick
Richard Luton	Managing Director Capital Markets Treasury Division Province of New Brunswick
Denis Caron	Deputy Minister, Environment and Local Government
Darlene O'Shea	Treasurer City of Miramichi
Bernadine Maillett-LeBlanc	General Manager Village of Saint-Antoine

Officers of the Corporation

Jane Garbutt	President
Leonard Lee-White	Vice President
Catherine Mosher	Secretary-Treasurer

Administration is provided by officials of the Province of New Brunswick.

Fiscal Year

The fiscal year of the Corporation is from January 1 to December 31.

Protection for Investors

Before applying to the Corporation for financing of a capital expense, all municipalities and municipal enterprises, except for the City of Saint John, must obtain the prior approval of the Minister of Local Government to incur the capital expense under the terms of the *Municipal Capital Borrowing Act*.

Under the provisions of the Act, the Lieutenant-Governor in Council may guarantee the payment of the principal, premium, if any, and interest on any securities issued by the Corporation.

The Act also obligates the Minister of Local Government to pay to the Corporation, upon request, any amounts payable to the Corporation by municipalities or municipal enterprises that are in default.

Financing Activity in 2012

In 2012, the Corporation sold four debentures privately to the Federation of Canadian Municipalities, one issue of debentures on the Canadian bond market and one issue was placed privately. All issues were guaranteed as to principal and interest by the Province of New Brunswick. The proceeds, after allowing for expenses of issue, were loaned to municipalities and municipal enterprises against the security of debentures payable to the Corporation. The public series was issued in the form of a fully registered global serial certificates registered in the name of The Canadian Depository for Securities Limited ("CDS") and is held by CDS.

The details of the issues are as follows:

Series FCM 11052

Principal Amount $4,978,000

Date of Issue August 16, 2012

Date of Maturity August 16, 2013-2032

Year of Maturity	Principal $	Interest %
2013	205,000	2.000
2014	209,000	2.000
2015	213,000	2.000
2016	217,000	2.000
2017	222,000	2.000
2018	226,000	2.000
2019	231,000	2.000
2020	235,000	2.000
2021	240,000	2.000
2022	245,000	2.000
2023	250,000	2.000
2024	255,000	2.000
2025	260,000	2.000
2026	265,000	2.000
2027	270,000	2.000
2028	276,000	2.000
2029	281,000	2.000
2030	287,000	2.000
2031	293,000	2.000
2032	298,000	2.000

Series FCM 10353

Principal Amount $961,000

Date of Issue May 28, 2012

Date of Maturity May 28, 2013-2032

Year of Maturity	Principal $	Interest %
2013	40,000	2.000
2014	40,000	2.000
2015	41,000	2.000
2016	42,000	2.000
2017	43,000	2.000
2018	44,000	2.000
2019	45,000	2.000
2020	45,000	2.000
2021	46,000	2.000
2022	47,000	2.000
2023	48,000	2.000
2024	49,000	2.000
2025	50,000	2.000
2026	51,000	2.000
2027	52,000	2.000
2028	53,000	2.000
2029	54,000	2.000
2030	56,000	2.000
2031	57,000	2.000
2032	58,000	2.000

Series FCM 10092

Principal Amount	$2,000,000
Date of Issue	May 28, 2012
Date of Maturity	May 28, 2013-2027

Year of Maturity	Principal $	Interest %
2013	115,000	2.000
2014	118,000	2.000
2015	120,000	2.000
2016	123,000	2.000
2017	125,000	2.000
2018	128,000	2.000
2019	130,000	2.000
2020	133,000	2.000
2021	135,000	2.000
2022	138,000	2.000
2023	141,000	2.000
2024	144,000	2.000
2025	147,000	2.000
2026	150,000	2.000
2027	153,000	2.000

Series FCM 10346

Principal Amount	$9,223,000
Date of Issue	December 3, 2012
Date of Maturity	December 3, 2013-2032

Year of Maturity	Principal $	Interest %
2013	380,000	2.000
2014	387,000	2.000
2015	395,000	2.000
2016	403,000	2.000
2017	411,000	2.000
2018	419,000	2.000
2019	427,000	2.000
2020	436,000	2.000
2021	445,000	2.000
2022	454,000	2.000
2023	463,000	2.000
2024	472,000	2.000
2025	481,000	2.000
2026	491,000	2.000
2027	501,000	2.000
2028	511,000	2.000
2029	521,000	2.000
2030	531,000	2.000
2031	542,000	2.000
2032	553,000	2.000

Series BG

Principal Amount	$47,591,000
Date of Issue	June 4, 2012
Date of Maturity	June 4, 2013-2027
Underwriters	Placed privately with pricing assistance from: CIBC World Markets Inc.
Registrar and Paying Agent	Minister of Finance, Province of New Brunswick

Year of Maturity	Principal $	Interest %
2013	4,617,000	1.650
2014	4,695,000	1.900
2015	4,792,000	2.100
2016	4,869,000	2.300
2017	4,975,000	2.450
2018	3,034,000	2.700
2019	3,122,000	2.900
2020	3,216,000	3.100
2021	3,323,000	3.250
2022	5,266,000	3.400
2023	558,000	3.500
2024	577,000	3.550
2025	597,000	3.650
2026	621,000	3.700
2027	3,329,000	3.800

Series BH

Principal Amount	$69,541,000
Date of Issue	November 30, 2012
Date of Maturity	November 30, 2013-2032
Underwriters	A syndicate managed by: CIBC World Markets Inc. RBC Capital Markets
Registrar and Paying Agent	Minister of Finance, Province of New Brunswick

Year of Maturity	Principal $	Interest %
2013	4,808,000	1.350
2014	4,858,000	1.500
2015	4,900,000	1.700
2016	4,945,000	1.950
2017	4,939,000	2.150
2018	4,338,000	2.400
2019	4,409,000	2.600
2020	4,486,000	2.750
2021	4,567,000	2.950
2022	4,658,000	3.100
2023	2,597,000	3.200
2024	2,633,000	3.300
2025	2,669,000	3.400
2026	2,710,000	3.450
2027	2,743,000	3.550
2028	1,344,000	3.600
2029	1,376,000	3.700
2030	1,406,000	3.750
2031	1,444,000	3.800
2032	3,711,000	3.800

Schedule of Loans to Municipalities – Cities and Towns

	Principal Outstanding Dec. 31, 2011	2012 Principal Repaid	2012 New Loans	Principal Outstanding Dec. 31, 2012
Cities				
Bathurst	$ 31,148,000	$ 4,562,000	$ 3,648,000	$ 30,234,000
Campbellton	13,255,000	2,397,000	1,441,000	12,299,000
Dieppe	79,318,000	6,541,000	10,904,000	83,681,000
Edmundston	60,121,000	5,906,000	11,692,000	65,907,000
Fredericton	56,411,000	2,443,000	1,100,000	55,068,000
Miramichi	28,055,000	3,499,000	3,915,000	28,471,000
Moncton	136,199,000	21,994,000	28,131,000	142,336,000
Saint John	176,677,000	17,275,000	24,500,000	183,902,000
Total	$581,184,000	$64,617,000	$85,331,000	$601,898,000
Towns				
Beresford	$3,530,000	$ 588,000	$1,170,000	$4,112,000
Bouctouche	368,000	47,000	4,978000	5,299,000
Caraquet	4,853,000	761,000	1,353,000	5,445,000
Dalhousie	5,500,000	728,000	235,000	5,007,000
Florenceville-Bristol	736,000	28,000	0	708,000
GrandBay/Westfield	1,907,000	307,000	747,000	2,347,000
Grand-Sault/Grand Falls	16,646,000	1,471,000	579,000	15,754,000
Hampton	4,455,000	1,107,000	929,000	4,277,000
Hartland	893,000	110,000	79,000	862,000
Lamèque	1,016,000	150,000	0	866,000
Nackawic	712,000	85,000	0	627,000
Oromocto	527,000	48,000	350,000	829,000
Quispamsis	22,589,000	1,991,000	2,000,000	22,598,000
Richibucto	988,000	193,000	105,000	900,000
Riverview	32,167,000	3,617,000	0	28,550,000
Rothesay	7,778,000	1,782,000	2,427,000	8,423,000
Sackville	6,389,000	1,092,000	9,632,000	14,929,000
Saint-Leonard	2,969,000	584,000	294,000	2,679,000
Saint-Quentin	1,961,000	431,000	187,000	1,717,000
Shediac	4,715,000	1,031,000	2,306,000	5,990,000
Shippagan	4,925,000	1,231,000	1,573,000	5,267,000
St. Andrews	3,689,000	738,000	1,453,000	4,404,000
St. George	167,000	58,000	0	109,000
St. Stephen	7,009,000	982,000	485,000	6,512,000
Sussex	1,595,000	178,000	988,000	2,405,000
Tracadie-Sheila	5,889,000	519,000	2,515,000	7,885,000
Woodstock	2,546,000	201,000	0	2,345,000
Total	$146,519,000	$20,058,000	$34,385,000	$160,846,000

Schedule of Loans to Municipalities – Villages

Villages	Principal Outstanding Dec. 31, 2011	2012 Principal Repaid	2012 New Loans	Principal Outstanding Dec. 31, 2012
Alma	$1,488,000	$ 52,000	0	$1,436,000
Atholville	2,482,000	254,000	150,000	2,378,000
Baker Brook	529,000	69,000	0	460,000
Balmoral	1,678,000	151,000	919,000	2,446,000
Bas-Caraquet	375,000	124,000	100,000	351,000
Bath	560,000	146,000	23,000	437,000
Belledune	3,411,000	768,000	372,000	3,015,000
Bertrand	615,000	60,000	0	555,000
Blacks Harbour	1,095,000	89,000	0	1,006,000
Blackville	476,000	65,000	42,000	453,000
Bristol	265,000	44,000	0	221,000
Canterbury	191,000	21,000	0	170,000
Cap-Pelé	1,709,000	278,000	212,000	1,643,000
Centreville	148,000	36,000	0	112,000
Charlo	1,523,000	138,000	0	1,385,000
Chipman	421,000	129,000	18,000	310,000
Clair	1,573,000	103,000	982,000	2,452,000
Doaktown	861,000	402,000	1,729,000	2,188,000
Dorchester	495,000	26,000	0	469,000
Drummond	588,000	62,000	210,000	736,000
Eel River Crossing	363,000	40,000	0	323,000
Florenceville	516,000	223,000	0	293,000
Fredericton Junction	1,171,000	69,000	0	1,102,000
Gagetown	368,000	44,000	0	324,000
Grand Manan	1,674,000	151,000	0	1,523,000
Grande-Anse	323,000	58,000	0	265,000
Harvey	114,000	11,000	125,000	228,000
Hillsborough	476,000	89,000	0	387,000
Kedgwick-Former Village	851,000	69,000	82,000	864,000
Lac-Baker	322,000	37,000	0	285,000
Le Goulet	268,000	17,000	0	251,000
Maisonnette	186,000	12,000	0	174,000
McAdam	346,000	69,000	0	277,000
Memramcook	5,999,000	258,000	1,438,000	7,179,000
Millville	164,000	24,000	0	140,000
Minto	2,691,000	279,000	98,000	2,510,000
Néguac	730,000	89,000	38,000	679,000

Schedule of Loans to Municipalities – Villages Continued and Rural Communities

	Principal Outstanding Dec. 31, 2011	2012 Principal Repaid	2012 New Loans	Principal Outstanding Dec. 31, 2012
Villages Continued				
New Maryland	$6,964,000	$913,000	$1,135,000	$7,186,000
Nigadoo	575,000	79,000	0	496,000
Norton	97,000	31,000	0	66,000
Paquetville	1,187,000	403,000	240,000	1,024,000
Petit-Rocher	1,626,000	198,000	238,000	1,666,000
Petitcodiac	1,560,000	86,000	100,000	1,574,000
Plaster Rock	2,242,000	98,000	0	2,144,000
Pointe-Verte	180,000	20,000	0	160,000
Port Elgin	161,000	18,000	25,000	168,000
Rexton	307,000	67,000	316,000	556,000
Riverside-Albert	981,000	68,000	0	913,000
Rivière-Verte	610,000	52,000	0	558,000
Rogersville	878,000	96,000	0	782,000
Saint-Antoine	2,715,000	465,000	2,077,000	4,327,000
Saint-François-de-Madawaska	1,061,000	96,000	0	965,000
Saint-Isidore	313,000	41,000	0	272,000
Saint-Louis-de-Kent	562,000	61,000	0	501,000
Saint-Léolin	87,000	13,000	20,000	94,000
Sainte-Anne-de-Madawaska	605,000	49,000	460,000	1,016,000
Saint-Marie-Saint Raphaël	543,000	137,000	0	406,000
Salisbury	1,048,000	88,000	0	960,000
St. Martins	73,000	7,000	299,000	365,000
Stanley	167,000	21,000	0	146,000
Sussex Corner	838,000	90,000	0	748,000
Tide Head	112,000	24,000	0	88,000
	$62,537,000	$ 7,777,000	$11,448,000	$ 66,208,000
Rural Communities				
Beaubassin-est	$9,000	$9,000	$ 0	$0
Saint-André	608,000	47,000	0	561,000
Upper Miramichi	200,000	7,000	0	193,000
	$817,000	$63,000	0	$754,000

Schedule of Loans to Municipalities – Municipal Enterprises

	Principal Outstanding Dec. 31, 2011	2012 Principal Repaid	2012 New Loans	Principal Outstanding Dec. 31, 2012
Municipal Enterprises				
COGEDES-Commission de gestion des déchets solides de la peninsula a	32,000	32,000	0	0
COGERNO – La Commission de gestion enviro resources du nord-ouest	1,200,000	382,000	0	818,000
Comité Mixte de Service de Police B.N.P.P.	42,000	16,000	0	26,000
Commission d'Ègouts Sanitaire d'Allardville	0	0	28,000	28,000
Fredericton Region Solid Waste Commission	1,864,000	229,000	310,000	1,945,000
Fundy Region Solid Waste Commission	5,926,000	3,720,000	1,891,000	4,097,000
Greater Shediac Sewerage Commission	3,994,000	89,000	0	3,905,000
The Nepisiguit-Chaleur Solid Waste Commission	1,115,000	111,000	901,000	1,905,000
Restigouche Solid Waste Corporation	283,000	29,000	0	254,000
Rothesay Regional Joint Board of Police Commissioners	1,743,000	94,000	0	1,649,000
Westmorland-Albert Solid Waste Corp.	1,544,000	492,000	0	1,052,000
Total	$17,743,000	$5,194,000	$3,130,000	$15,679,000
Grand Total	$808,800,000	$97,709,000	$134,294,000	$845,385,000

FINANCIAL STATEMENTS

NEW BRUNSWICK
MUNICIPAL FINANCE CORPORATION

31 DECEMBER 2012

AUDITOR GENERAL OF NEW BRUNSWICK

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
New Brunswick Municipal Finance Corporation

I have audited the accompanying financial statements of the New Brunswick Municipal Finance Corporation, which comprise the statement of financial position as at December 31, 2012, and the statements of comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the New Brunswick Municipal Finance Corporation as at December 31, 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Kim MacPherson

Kim MacPherson, CA
Auditor General

Fredericton, N.B.
June 18, 2013

6th Floor, HSBC Place
P.O. Box 758
Fredericton, NB E3B 5B4

NEW BRUNSWICK MUNICIPAL FINANCE CORPORATION

Statement of financial position
In Canadian dollars

	Note	31 December 2012	31 December 2011
Assets			
Cash and cash equivalents	3.2.4, 10	**$ 1,101,791**	$ 1,200,992
Accrued interest receivable from municipalities and municipal enterprises		**3,340,286**	3,686,973
Accrued investment income receivable		**754**	671
Short term investments	4	**393,975**	653,099
Loans to municipalities and municipal enterprises	5	**837,955,396**	803,683,254
Total assets		**842,792,202**	809,224,989
Liabilities			
Accounts payable		**2,552**	2,395
Accrued interest payable on debenture debt		**3,348,150**	3,700,403
Debenture debt	6	**838,325,863**	804,320,466
Total liabilities		**841,676,565**	808,023,264
Equity			
Retained earnings		**1,115,637**	1,201,725
Total equity		**1,115,637**	1,201,725
Total liabilities and equity		**$ 842,792,202**	$ 809,224,989

The accompanying notes are an integral part of these Financial Statements.

Approved by the Board and authorized for issue on 18 June 2013

..... Director

..... Director

Statement of comprehensive income
For the year ended 31 December
In Canadian dollars

	Note		2012	2011
Revenue				
Interest income	3.1	$	**34,251,338**	34,134,917
Subsidy received on debenture debt			**2,222,629**	786,416
Other revenue	8		**-**	89,471
			36,473,967	35,010,804
Expense				
Interest expense			**34,071,673**	33,878,483
Subsidy paid on loans to municipalities and municipal enterprises			**2,222,629**	786,416
Other expenses	9		**265,753**	170,281
			36,560,055	34,835,180
Total comprehensive income (loss)		$	**(86,088)**	175,624

Statement of changes in equity
For the year ended 31 December
In Canadian dollars

		2012	2011
Retained earnings, 1 January	$	**1,201,725**	1,026,101
Total comprehensive income (loss)		**(86,088)**	175,624
Retained earnings, 31 December	$	**1,115,637**	1,201,725

The accompanying notes are an integral part of these Financial Statements.

NEW BRUNSWICK MUNICIPAL FINANCE CORPORATION

Statement of cash flows
For the year ended 31 December
In Canadian dollars

	2012	2011
Operating activities		
Cash received from operations	$ 175,698	$ 339,215
Cash paid from operations	(270,596)	(169,765)
Interest paid on debenture debt	(33,421,166)	(33,178,655)
Interest received from municipalities and municipal enterprises	33,389,484	33,138,803
Interest received from investments	11,379	17,119
Cash flows from operating activities	(115,201)	146,717
Financing activities		
Proceeds on sale of debentures	133,026,568	168,756,071
Principal paid on debenture debt	(97,977,000)	(91,128,000)
Cash flows from financing activities	35,049,568	77,628,071
Investing activities		
Loans to municipalities and municipal enterprises	(133,026,568)	(168,756,071)
Principal repayments made by municipalities and municipal enterprises	97,709,000	90,956,000
Proceeds from maturity of long term investments	284,000	192,000
Cash flows from investing activities	(35,033,568)	(77,608,071)
(Decrease) Increase in cash and cash equivalents	(99,201)	166,717
Cash and cash equivalents at beginning of year	1,200,992	1,034,275
Cash and cash equivalents at end of year	$ 1,101,791	$ 1,200,992

The accompanying notes are an integral part of these Financial Statements.

1. Reporting entity

The New Brunswick Municipal Finance Corporation ("the Corporation") is a Crown Corporation of the Province of New Brunswick, and was established under the New Brunswick Municipal Finance Corporation Act ("the Act"), which came into force on 1 February 1983. The purpose of the Corporation is to provide financing for municipalities and municipal enterprises through a central borrowing authority. The Corporation is not subject to income taxes because it is a public sector entity.

2. Basis of presentation

2.1 Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

2.2 Basis of Measurement

The financial statements have been prepared under the historical cost convention.

2.3 Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to exercise its judgment and make assumptions in the application of the Corporation's accounting policies.

2.4.1 Key sources of estimates

Significant items in these financial statements that have been measured using estimates are the fair value at initial recognition of subsidized financing (see note 10), and the fair value of the short-term investments, loans to municipalities and debenture debt, disclosed in note 7.1. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2.4.2 Critical judgements

The only critical judgement that the Corporation's management has made in the process of applying the Corporation's accounting policies, apart from those involving estimations, is assessing the interest rate, credit and liquidity risk.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below, and have been consistently applied to all the years presented.

3.1 Revenue recognition

The Corporation records income on all financial assets using the effective interest method. Any gains or losses realized on the sale of financial assets prior to maturity are recognized in profit or loss during the period in which they are sold.

The portion of the debenture issue proceeds that is retained by the Corporation is recorded as revenue in the year in which the related debenture is issued.

In cases of subsidized financing, the difference between the fair value of the debenture issue and the proceeds received is recorded as revenue in the year in which the related debenture is issued.

3.2 Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value, plus any directly attributable transaction costs, when the Corporation becomes a party to the contractual rights and obligations of the financial instrument. Fair value represents the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset have expired or have been transferred, and the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligation has been discharged, cancelled, or has expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

At initial recognition, the Corporation classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired. Settlement date accounting is used.

3.2.1 Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Subsequent to initial recognition, fair value fluctuations are included in profit or loss. The Corporation has no financial assets classified as fair value through profit or loss.

3. **Summary of significant accounting policies (continued)**

3.2.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise loans to municipalities and municipal enterprises, and other receivables.

3.2.3 Held-to-maturity investments

Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

The Corporation's held-to-maturity financial assets consist of long term investments. Long term investments consist of securities issued or guaranteed by the Government of Canada, or any provincial government of Canada that have a term-to-maturity of greater than one-year when acquired. These securities are intended to be held to maturity.

3.2.4 Cash and cash equivalents

Cash and cash equivalents includes deposits held at call with banks, and other short-term highly liquid investments with original maturities of less than one-year. Due to the short-term nature, fair value is assumed to represent the carrying value, which is historical cost.

3.2.5 Accounts payable, interest payable, and debenture debt

Accounts payable, interest payable and debenture debt are classified as financial liabilities. Such liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method.

3.2.6 Subsidies received and paid

Qualified financing, through the Corporation, has been made available to municipalities and municipal enterprises by the Federation of Canadian Municipalities ("FCM") at preferential interest rates. The Corporation receives the financing from FCM and provides it to the qualifying municipalities and municipal enterprises at the identical terms.

The Corporation initially recognizes all financial instruments at fair value, the prevailing interest rates applicable to the Corporation's regular financing at the time of issue have been used to determine fair value. The difference between the fair value of the debenture issue and the proceeds received is recorded as an in-year revenue, and as a discount to the debenture debt which is amortized to maturity as an expense. The offsetting difference between the fair value of the loans to

3. Summary of significant accounting policies (continued)

municipalities and municipal enterprises and the proceeds paid is recorded as an in-year expense, and as a discount to the loans to municipalities and municipal enterprises which is amortized to maturity as revenue.

3.3 Impairment of financial assets

The Corporation assesses at the end of each reporting period whether there is objective evidence that individual financial assets are impaired. A financial asset is impaired, and impairment losses are incurred, only if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset which has an impact on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor or indications that a debtor or issuer will enter into bankruptcy.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the asset. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3.4 New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2012 and have not been applied in preparing these financial statements. IFRS 7 – Financial Instruments: disclosures and IFRS 13 – Fair Value Measurement are effective for fiscal years beginning on or after January 1, 2013. IFRS 9 – Financial Instruments, is effective for fiscal years beginning on or after January 1, 2015. The extent of the impact of these standards has not yet been determined.

4 Short-term investments

Short-term investments are measured at amortized cost. The investments held were purchased at a discount, and pay the face value at maturity, with no interest paid in the interim. The investments at the financial statement date are as follows:

	within 1 yr	31 Dec 2012	31 Dec 2011
Provincial	$393,975	$393,975	$375,036
Provincial guaranteed	-	-	278,063
	$393,975	$393,975	$653,099

5 Loans to municipalities and municipal enterprises

Loans to municipalities and municipal enterprises are made on the security of their debentures due in annual installments or periods up to a maximum of thirty years. The terms of the loans are in almost all cases identical to the terms of the debenture debt, which are summarized in note 6. These loans are initially measured at fair value and subsequently reflected at amortized cost using the effective interest method. Lending rates on loans are fixed for borrowing terms commencing with the initial period of the loan. The Corporation conducts an annual evaluation of loan impairment to determine if an impairment write-down is necessary. No impairments have been recognized in the current or previous year.

The aggregate principal payments recoverable from municipalities and municipal enterprises aggregated to maturity and their weighted average coupon rates are as follows:

Maturity Date	Principal Repayment	Weighted Average Coupon
2013	$100,293,000	3.55%
2014	112,182,000	3.85%
2015	99,957,000	3.74%
2016	105,351,000	3.95%
2017	73,509,000	3.97%
Years 1 - 5	491,292,000	3.81%
Years 6 - 10	303,692,000	4.05%
Years 11- 20	50,401,000	3.67%
	$845,385,000	3.88%
Unamortized discount	(7,429,604)	
	$837,955,396	

6 Debenture debt

The aggregate debenture debt aggregated to maturity and their weighted average coupon rates are as follows:

Maturity Date	Principal Repayment	Weighted Average Coupon
2013	$100,664,000	3.56%
2014	112,182,000	3.85%
2015	99,957,000	3.74%
2016	105,351,000	3.95%
2017	73,509,000	3.97%
Years 1 - 5	491,663,000	3.81%
Years 6 - 10	303,692,000	4.05%
Years 11 - 20	50,401,000	3.67%
	$845,756,000	3.89%
Unamortized discount	(7,430,137)	
	$838,325,863	

6 Debenture debt (continued)

Under the provisions of the Act, the Lieutenant-Governor in Council may guarantee the payment of the principal, premium, if any, and interest on any securities issued by the Corporation. The following debenture debt outstanding at 31 December is in Canadian funds and is fully guaranteed by the Province of New Brunswick:

Series	Date of Issue	Maturity Date	Interest Rates	Original Amount	Outstanding 31 Dec 2012	Outstanding 31 Dec 2011
"AM"	12 July 2002	12 July 2003 to 2012	3.375% to 5.75%	52,016,000	$ -	$ 11,609,000
*"AN"	23 Dec. 2002	23 Dec. 2003 to 2012	3.10% to 5.60%	24,625,000	-	4,724,000
"AO"	28 July 2003	28 July 2004 to 2013	3.05% to 5.00%	41,532,000	**8,443,000**	12,611,000
"AP"	17 Dec. 2003	17 Dec. 2004 to 2013	2.75% to 5.125%	51,873,000	**8,696,000**	13,809,000
*"AQ"	8 July 2004	8 July 2005 to 2014	2.75% to 5.50%	27,040,000	**9,717,000**	12,010,000
"AR"	16 Dec. 2004	16 Dec. 2005 to 2014	2.75% to 4.80%	78,919,000	**35,755,000**	41,528,000
*"AS"	7 July 2005	7 July 2006 to 2015	2.85% to 4.35%	21,781,000	**10,014,000**	11,593,000
"AT"	7 Dec. 2005	7 Dec. 2006 to 2015	3.75% to 4.375%	75,023,000	**37,595,000**	42,816,000
*"AU"	13 June 2006	13 June 2007 to 2016	4.15% to 4.70%	29,249,000	**14,150,000**	16,485,000
*"AV"	1 Dec. 2006	1 Dec. 2007 to 2016	4.15% to 4.45%	105,451,000	**64,430,000**	71,317,000
*"AW"	25 May 2007	25 May 2008 to 2017	4.30% to 4.55%	28,104,000	**16,575,000**	19,082,000
*"AX"	23 Nov. 2007	23 Nov. 2008 to 2017	4.45% to 4.85%	56,691,000	**35,652,000**	40,300,000
*"AY"	16 May 2008	16 May 2009 to 2018	3.30% to 4.85%	53,383,000	**37,092,000**	41,350,000
*"AZ"	22 Dec. 2008	22 Dec. 2009 to 2023	2.10% to 5.55%	63,750,000	**46,261,000**	50,794,000
"BA"	11 Jun. 2009	11 June 2010 to 2019	0.95% to 5.00%	70,562,000	**53,779,000**	59,461,000
"BB"	6 Nov. 2009	6 Nov. 2010 to 2019	1.00% to 4.50%	82,551,000	**67,569,000**	72,640,000
"BC"	2 June 2010	2 June 2011 to 2020	1.50% to 4.55%	56,080,000	**47,402,000**	51,771,000
"BD"	19 Nov. 2010	19 Nov. 2011 to 2020	1.50% to 3.85%	69,690,000	**60,322,000**	65,043,000
"FCM 10097"	31 Mar. 2011	31 Mar. 2012 to 2031	2.06%	4,000,000	**3,800,000**	4,000,000
*"BE"	27 May 2011	27 May 2012 to 2021	1.65% to 4.25%	115,683,000	**107,889,000**	115,683,000
"BF"	5 Dec. 2011	5 Dec. 2012 to 2021	1.35% to 3.45%	50,813,000	**46,321,000**	50,813,000
"FCM 10092"	28 May 2012	28 May 2013 to 2027	2.00%	2,000,000	**2,000,000**	-
"FCM 10353"	28 May 2012	28 May 2013 to 2032	2.00%	961,000	**961,000**	-
*"BG"	4 Jun. 2012	4 Jun. 2013 to 2027	1.65% to 3.80%	47,591,000	**47,591,000**	-
"FCM 11052"	16 Aug. 2012	16 Aug.2013 to 2032	2.00%	4,978,000	**4,978,000**	-
"BH"	30 Nov. 2012	30 Nov. 2013 to 2032	1.35% to 3.80%	69,541,000	**69,541,000**	-
"FCM 10346"	3 Dec. 2012	3 Dec. 2013 to 2032	2.00%	9,223,000	**9,223,000**	-
					$ 845,756,000	$ 809,439,000

* These debentures were sold directly to funds administered by the Province of New Brunswick and total $342,279,000 outstanding at 31 December 2012 (2011 - $333,074,000). A portion of series "BE" ($47,092,000) was sold publicly.

7 Financial instruments

7.1 Fair value

The Corporation's financial instruments include the following:

	2012 Carrying Amount	2012 Fair Value
Financial Assets held for trading		
Cash and equivalents	$1,101,791	$1,101,791
Loans and receivables		
Accrued interest receivable	3,340,286	3,340,286
Accrued investment income receivable	754	754
Short term investments	393,975	402,331
Loans to municipalities and municipal enterprises	845,385,000	903,218,126
Financial liabilities		
Accounts payable	2,552	2,552
Accrued interest payable on debenture debt	3,348,150	3,348,150
Debenture debt	$845,756,000	$903,741,742

The fair values of cash and cash equivalents, short-term investments, accrued interest receivable, accrued investment income receivable, accounts payable and accrued interest payable are assumed to approximate their carrying amounts because of their short term to maturity.

Short-term investments are classified in a hierarchy of three levels depending on the inputs used to determine fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets and the lowest priority to unobservable inputs used in determining the fair value. If different levels of inputs are used to measure the fair value of an investment, the classification is based on the lowest level input used. The three levels of the fair value hierarchy are as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly; and

Level 3 - inputs for the assets or liabilities that are not based on observable market data.

The issue and repayment terms of the loans to municipalities and municipal enterprises and debenture debt are in most cases identical, and in those cases the asset and liability is intended to be held to maturity.

7 Financial instruments (continued)

The fair value of short-term investments is derived from level 2 inputs. The fair value of loans to municipalities and municipal enterprises and debenture debt are derived from level 2 inputs. No level 3 inputs have been used to determine fair value.

7.2 Financial risk management

The Corporation follows a conservative investment policy when investing cash in order to mitigate financial risk. Financial risk on loans to municipalities and municipal enterprises is mitigated by the provisions of the Act.

7.2.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

The Corporation's rate of interest charged on loans to municipalities and municipal enterprises and interest paid on outstanding debenture debt are fixed as stated in legal agreements. Any change in market interest rates during the period would have no effect on the cash flows of the Corporation. The fair values of the debenture debt and loans to municipalities and municipal enterprises would be affected by changes in market interest rates; however, this is mitigated by the offsetting nature of this arrangement. It is management's opinion that the Corporation has minimal exposure to interest rate risk.

7.2.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The following carrying amounts of financial assets represent the maximum credit exposure at the reporting date:

	31 Dec 2012	31 Dec 2011
Cash and cash equivalents	**1,101,791**	1,200,992
Accrued interest receivable	**3,340,286**	3,686,973
Accrued investment income receivable	**754**	671
Short term investments	**393,975**	653,099
Loans to municipalities and municipal enterprises	**$837,955,396**	$803,683,254
	$842,792,202	$809,224,989

7 Financial instruments (continued)

No financial assets are past due or impaired as at the financial statement date.

Section 14 of the Act provides for the recovery of any defaults by municipalities and municipal enterprises from the Minister of Environment and Local Government, thereby mitigating credit risk on the loans to municipalities and municipal enterprises.

The Corporation's short-term investment portfolio is limited to securities issued or guaranteed by the Government of Canada, or any provincial government of Canada. The Corporation's cash equivalent portfolio is limited to treasury bills issued by the Government of Canada, or any provincial government of Canada, as well as deposit receipts, deposit notes, certificates of deposit, acceptances and other similar instruments issued or endorsed by any Canadian chartered bank.

7.2.3 Liquidity risk

Liquidity risk is the risk of not being able to settle or meet an obligation on time or at a reasonable price.

The Corporation's financial assets classified by period in which they are due are:

31 December 2012	Carrying amount	Contractual amount	1 yr or less	2-5 yrs	more than 5 yrs
Cash and cash equivalents	$1,101,791	$1,101,791	$1,101,791	-	-
Accrued interest receivable	3,340,286	3,340,286	3,340,286	-	-
Accrued investment income receivable	754	754	754	-	-
Short term investments	393,975	393,975	393,975	-	-
Loans to municipalities and municipal enterprises	837,955,396	845,385,000	100,293,000	390,999,000	354,093,000
	$842,792,202	$850,221,806	$105,129,806	$390,999,000	$354,093,000

7 Financial instruments (continued)

The Corporation's financial liabilities classified by period in which they are due are:

31 December 2012	Carrying amount	Contractual amount	1 yr or less	2-5 yrs	more than 5 yrs
Accounts payable	$2,552	$2,552	$2,552	-	-
Interest payable	3,348,150	3,348,150	3,348,150	-	-
Debenture debt	838,325,863	845,756,000	100,664,000	390,999,000	354,093,000
	$841,676,565	$849,106,702	$104,014,702	$390,999,000	$354,093,000

The Corporation's payment terms on loans to municipalities and municipal enterprises are equal to the terms of the debenture debt, and cash resources are monitored to ensure obligations are met. The amount of principal to be paid on debenture debt by year is disclosed in note 6. The amount of principal to be received from loans to municipalities and municipal enterprises by year is disclosed in note 5.

It is management's opinion that the Corporation is not exposed to significant liquidity risk as it is not expected that the cash flows from loan collectibles or debt repayments could occur significantly earlier, or at significantly different amounts than expected.

7.2.4 Currency risk

The Corporation is not subject to currency risk. The functional currency is the Canadian dollar and all transactions are denominated in Canadian dollars.

8 Other revenue

During 2011, commissions related to prior year debt issuance were refunded to the Corporation and have been recorded as other revenue. The refund was issued after discovery that in two cases, the Corporation's bonds were sold on the primary market, directly to funds administered by the Province of New Brunswick.

9 Other expenses

Other expenses are related to the administration of the Corporation as detailed below.

	2012	2011
Administration fee paid to the Province of New Brunswick	$ 263,200	$ 167,800
Bank charges	2,553	2,442
Other	(0)	39
	$ 265,753	$ 170,281

10 Related party transactions

The Corporation is controlled by the Province of New Brunswick. These financial statements include the results of transactions with various Province of New Brunswick departments related to the corporation by virtue of common control. Certain services are provided by departments in the normal course of operations and are recorded in these financial statements. The administrative fees paid by the Corporation to the Province of New Brunswick are based on amounts agreed upon by the parties, and are disclosed in note 9.

As at 31 December 2012, funds administered by the Province of New Brunswick held $364,646,000 (2011 - $360,441,000) of the Corporation's outstanding debt. Of that total, $342,279,000 (2011 - $333,074,000) was sold directly to the funds.

Cash and cash equivalents at 31 December 2012 includes $889,416 (2011 - $990,200) in Province of New Brunswick Treasury Bills sold directly to the Corporation.

The Corporation issued debt to the Province of New Brunswick and purchased New Brunswick Treasury Bills from the Province of New Brunswick at prevailing market rates.

11 Capital Management

The Corporation's capital consists of the debenture debt and retained earnings. The terms of the loans to municipalities and municipal enterprises are in almost all cases identical to the debenture debt in order to provide for the debt's principal and interest payments. The Corporation's retained earnings are invested in highly secure short-term investments. The Corporation is not subject to any externally imposed capital requirements.

There has been no change in this capital structure from the previous year.